United States Court of Appeals

for the Second Circuit

BRIEF FOR APPELLANT

74-1201

In The

United States Court of Appeals

For the Second Circuit

No. 74-1201

USAchem, INC.,

Plaintiff-Appellant,

vs.

HOWARD A. GOLDSTEIN and HOWARD A. GOLDSTEIN d/b/a GOLD SEAL ASSOCIATES,

Defendant-Appellee.

On Appeal from the United States District Court
for the Western District of New York

APPELLANT'S MEMORANDUM OF LAW

HARRIS, BEACH AND WILCOX
Attorneys for Plaintiff-Appellant
Two State Street
Rochester, New York 14614
Telephone: (716) 232-4440

Henry W. Williams, Jr., *of Counsel*

Daily Record Corporation
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Questions Presented

1. Is the eighteen-month post-employment restrictive covenant which is a part of the contract in issue here enforceable under applicable law?

2. Is that covenant enforceable by injunction under applicable law?

3. Do the circumstances of this case involve such irreparable harm and incalculable damages as to require an injunction as the only effective kind of relief available to plaintiff-appellant USAchem?

Preliminary Statement

This is an appeal by the plaintiff-appellant (USAchem) from part of a judgment entered after trial in the office of the Clerk of the United States District Court, Western District of New York, on January 11, 1974. Specifically USAchem is seeking a reversal of the trial judge's denial of an injunction to prevent the defendant-respondent (Mr. Goldstein) from violating his post employment 18-month restrictive covenant, which the Court held to be valid and enforceable. (p. 430 of the trial transcript. Hereafter references to pages in the trial transcript will be made by page number only.) The District Court Judge specifically held that Mr. Goldstein *had* violated that covenant and that he continues to do so. (p. 430)

The facts of the case are as follows:

USAchem is a manufacturer and nationwide distributor of chemical specialty products to industrial, commercial, institutional and municipal accounts. It sells such products as soap, detergents, disinfectants, cleaners, coatings, water treatments, insecticides, adhesives, products for turf and grounds and like chemical specialty products. USAchem (taking into account its predecessor) has been in business for many years; and, because of the nature of its products, the training it affords its salesmen, extensive research and product development, it has developed a large customer following and considerable goodwill among its customers.

Sales to customers are made exclusively by approximately 1000 salesmen assigned to territories throughout the country. (p. 9) The chemical specialty business is a highly competitive one, and USAchem has literally thousands of competitors contending with it for customers. (pp. 60, 314ff) USAchem, though a successful company, has probably less than one percent of the chemical specialty market. (p. 60) For this reason it spends great sums of money in training and equipping its salesmen and giving ongoing and constant training and

supervision. (pp. 29-39, 212-230, 306, 353) Indeed the chief financial officer of USAchem, Mr. Piassick, testified that it costs an average of more than $6,700 to train and equip a new salesman. (p. 37) Mr. Goldstein received the full benefit of this initial and continuing help from USAchem. (pp. 212-230, 353-355)

USAchem also gives each of its salesmen confidential customer lists and other confidential materials relating to the company's customers, records of prior contracts and sales to them and other information useful to a salesman of the sort obtained by USAchem salesmen in the field. (pp. 24, 247-250, 384) Then, too, each salesman compiles this kind of information for himself, as Mr. Goldstein did in his nine years with the company. (p. 384)

A salesman for USAchem, therefore, has been well-trained in the techniques of sales; he has been kept up to date on new products; and he has been given background information on customers in his territory. Because of the intense competitiveness of the chemical specialty industry, USAchem does everything it can, expending considerable effort and money in doing so, to make him a top flight salesman, who is an expert in his products and in the procedures of his job. When such a man leaves the company to go into competition with it, he is the most dangerous of competitors.

A company in a specialized and competitive industry like this one runs a risk in creating a large force of expert and talented salesmen; it is the risk of training soldiers who may be fighting for an opposing camp. This risk is magnified a hundredfold, however, when the company's sole contact with its market is its salesmen.

This is the point which, above all, USAchem wants to make to the Court. USAchem sells exclusively through its salesmen. It does not sell through mass advertising. It has not made itself or any of its products household words. There are no USAchem

stores. Indeed USAchem products cannot even be purchased in stores. (pp. 14, 60, 249-250, 290) To the commercial and industrial and municipal purchasers of its chemical specialty products USAchem *is*, to a great extent, its salesman. It establishes goodwill with its customers through him. That is why it is worth it to the company to spend much time and effort and money in training him. USAchem does not spend money on television commercials and billboards: *he* is their advertising. USAchem does not spend money on bricks and mortar and macadam parking lots: *he* is their store. And if he leaves the company but remains in the chemical speciality business in his territory, all of that advertising and goodwill built up over the years is turned to another company's benefit. The familiar "store" remains where it always was but with a different sign hung on it.

At that point, unless the courts enforce the eighteen-month employment covenant by injunction, USAchem is out of business with its former customers. When a nine-year salesman like Mr. Goldstein forsakes the company, that is loss enough. When he stays in the same business in the same territory he appropriates his employer's business for himself.

There was considerable testimony at trial about how easy it is for a salesman who has 200 or 250 accounts to take them with him, as Mr. Goldstein did (p. 286) and to set himself up in competition with his employer. Not much is needed in the way of capital investment. (p. 257) There are thousands of sources of supply. (p. 258) If he has the accounts, moreover, his supplier has the incentive to finance him (p. 258) and to make the transition as easy for him as it can. (p. 259)

This very real danger, dramatized by the case of Mr. Goldstein, is a major reason why the restrictive covenant is necessary.

In 1963, Mr. Goldstein applied to USAchem for a salesman's position. (pp. 207-208) At that time he was earning about

$7,500 per year in the wholesale appliance business. (p. 213) He had no background whatever in chemical specialties. (p. 217) He had, at the age of 27, very moderate experience in sales. (pp. 347-348, 218-219) As Mr. Goldstein recalled on the witness stand, in colloquy with the District Court Judge, "I just wanted a job. I wanted to work, sir." (p. 379) He wanted the job badly. (pp. 349, 379-380)

On April 19 of that year Mr. Goldstein got the job with USAchem, and he and the company executed a Sales Representative's Agreement which granted to Mr. Goldstein the right to sell USAchem products in four whole counties in Western New York State and seven municipalities in Monroe County, in the Rochester metropolitan area. (Exhibit 1) By an amendment to the contract in December, 1963, Mr. Goldstein acquired an additional county in his territory. (pp. 20-21, 282)

The Sales Representative's Agreement contained a covenant by which Mr. Goldstein agreed that for eighteen months after the termination of his employment with the company he would refrain from selling competing chemical products to USAchem's customers in his former assigned territory. The Agreement also provided that Mr. Goldstein would not use for his own benefit (or divulge to others) any confidential information obtained from USAchem during the period of his employment. Like other salesmen, Mr. Goldstein received from the company various confidential materials including a customer list and related customer information to assist him in his sales efforts.

Mr. Goldstein received intensive training at the outset of his career with USAchem, both in the field and by the book; and help from the company was forthcoming throughout his nine years with it. Without taking anything away from Mr. Goldstein, it would appear that his new association with USAchem, and the skills he acquired during that association, did him considerable good. He came to the company with an income of $7,500 a year, and his earnings with the company over the next

years were as follows: 1963, approximately $18-20,000 (p. 235); 1964, approximately $18,000 (p. 167); 1965, approximately $20,000 (p. 167); 1966, $21,147 (p. 54); 1967, $25,047 (p. 54); 1968, $26,132 (p. 54); 1969, $33,735 (p. 54); 1970, $19,317 (p. 54); 1971, $19,117 (p. 53).

On August 25, 1972, a little more than nine years after he began with the company, Mr. Goldstein unilaterally terminated his employment with USAchem (p. 403), and began selling chemical specialties under the name "Gold Seal Associates." The products he sold had the same uses as the USAchem products which he formerly sold (pp. 185, 192-193), and he was selling them in the same territory to his old customers.

Here is how it came about. In the late spring or early summer of 1972, Mr. Goldstein was in the hospital with some sort of undiagnosed problem, and while he was there he was thinking seriously about something he had given thought to before leaving USAchem. (pp. 391, 394) During this time he was receiving draw checks from the company, though he was not earning commissions. (pp. 379-399) Draw checkes were paid to him not as salary but against commissions; yet perhaps Mr. Goldstein was not worried about the debit balance he was accumulating, because he had been forgiven a debit balance incurred two years before during a period of illness. (pp. 358, 359, 390) The difference on this occasion was that he was making plans to quit, and he wasn't telling the company. Indeed, he was organizing other suppliers during that July and August. He spoke to "quite a few" of them during this time, he said. (pp. 394-396) He was filing a certificate to do business under an assumed name. (p. 395) He was talking with other USAchem salesmen about joining him in departure. (pp. 179-180)

He was not, however, doing any selling to speak of for USAchem. He drew a steady $250 per week from the company during June, July and August, 1972, but his earned com-

missions for those months were, respectively, $238, $99.74 and $14.28: a small offset to the more than $3,000 paid to him.

During this time Mr. Goldstein did not breathe a word to his employer about his decision to leave, let alone about his organization of a competing business. He quietly continued to accept money he was not earning until Friday, August 25, 1972. By that time Gold Seal Associates was ready to do business; not until then did Mr. Goldstein say anythong to Mr. Kimmel, a vice president of USAchem, or to anyone else that would jeopardize his regular receipt, week after week, of the $250 draw check. On Friday, August 25, 1972, he called Mr. Kimmel and terminated; and on the next business day, Monday, August 28, 1972, Mr. Goldstein wrote his first orders as Gold Seal Associates. (pp. 402-404)

Mr. Kimmel was obviously surprised by Mr. Goldstein's announcement of termination. (p. 361) He, who had arranged the forgiveness of the previously incurred debit balance, and who knew that another substantial debit balance had accumulated over the summer, expressed concern about it during the same telephone conversation. (p. 361) Mr. Goldstein says that he "really saw red" when Mr. Kimmel expressed this concern. (p. 361) Under the circumstances this indignation does not seem to have been warranted. In any event Mr. Goldstein made it clear that he did not intend to pay back any of the draw checks he had cashed over the past months. (pp. 361-362) ". . .I have never run from a fight yet" he said. (p. 362)

He kept the money (for which damages were ultimately awarded at trial); and more important, he kept his customer lists and customer information and his product book and his other USAchem materials. In his own words: "I kept everything that I had — well, whatever I had, I had." (p. 408) The Company was not able to prevail upon him to the contrary.

Armed as he was with nine years' accumulated goodwill, and his customer records and the knowledge and training he had

acquired during his years with USAchem, Mr. Goldstein was now in a position to inflict permanent and incalculable injury upon his former employer; and he set about this immediately. Pages 191 through 194 of the trial transcript tell the story in statistical terms.

Between August 25, 1972, when he left USAchem, and November 27, 1973, just before the trial of this action, Mr. Goldstein made 282 sales to customers that he had sold while he was with USAchem. (pp. 191-192; see also 383, 405) This was out of 346 total sales to customers, so that 81% of his sales during this post-employment period of 15 months were to his former USAchem customers (p. 192)

Ninety-five percent of his sales were in his former territory. (p. 192)

Ninety-five percent of his sales were of chemical specialty products which were competitive with USAchem products. (pp. 192-193)

Total sales during the period came to $67,579.19. (p. 193)

Mr. Goldstein's successor in the territory is Mr. James J. Dougherty, who was not hired however until late October, 1972. (p. 100) Mr. Goldstein had two months therefore completely free of competition from USAchem in which to convert his old customers to the Gold Seal label. This was another advantage to him of his strategy of silence. Because USAchem had no prior knowledge of his departure, let alone of his organization of a competing company, it was deprived of an opportunity even to compete with Mr. Goldstein as he launched his new chemical specialty business on his familiar turf. It must have seemed to him that he had secured for himself the best of both worlds. As he had calculated it, he would be paid by USAchem right up to the time of his quitting — and paid *not* for any work he was doing as the company's representative, but effectively subsidized (though the company did not know it) while he set up his new

business. When the company asked for its money back, he could feign (or, who knows? perhaps this man could actually *feel*) moral outrage that his employer could ask for such a thing after his years of toiling in the vineyards. Mr. Goldstein with his serviceable conscience could "really see red" at this point, though during the past season he had not only been partaking of the grapes but absconding with the vines. Then, with his sudden, almost casual announcement that he had decided "to call it a day" (p. 361), he could catch the company by surprise so that it would be helpless, at least for awhile, to defend its territory.

It was a clever plan; and, except for the judgment requiring him to pay back $3,300 of unearned draw, it has thus far worked. No injunction has interrupted him; and he has been liable for not a cent of damages for his breach of the restrictive covenant.

There is another reason why his plan was clever; and it is another of the things that make this covenant so necessary to USAchem. It is that it takes a long time for a new salesman like Mr. Dougherty to get established, so that he can compete effectively for business. USAchem has calculated that this period is, on the average, 18 months long (pp. 151-152, 236) Even as of the time of trial, Mr. Kimmel testified that Mr. Dougherty's training still was not complete. (p. 317) While no one had anything but admiration for Mr. Dougherty, therefore, even his arrival on the scene did not put USAchem on anything like an equal footing with Mr. Goldstein. Mr. Goldstein had the know-how, and he had the customers.

Mr. Dougherty's own testimony, introduced in evidence as Defendant's Exhibit 13, bears this out. He testified at pp. 15-16 of the transcript of his testimony that fully 40% of his sales are to new customers. He testified at p. 16 that when he started out in October, 1972, he was opening 18 to 20 new accounts a month and that a year later (October 1973) he was still opening new accounts at the rate of 8 to 10 a month. His total sales for

the year in question came to something in the neighborhood of $60,000 (pp. 12-13 of the transcript of his testimony), a total sales performance roughly comparable to Mr. Goldstein's under the Gold Seal label during the same period ($67,579.19 from August 25, 1972 to November 27, 1973 — see p. 193 of the trial transcript).

These figures, of course, are difficult to evaluate in the abstract. We cannot know what total sales Mr. Dougherty might have had if Mr. Goldstein had not had a grip on business built up over the years: customers, that is, to whom he did not sell but would have sold and customers to whom he sold but would have sold more but for Mr. Goldstein's breach. We *can* tell that it was below Mr. Goldstein's total sales for 1971, which were $67,510 (pp. 52-53), and we can infer from the fact that 1971 was not one of Mr. Goldstein's good years for commissions but was worse than any year since 1964 (see pp. 54, 167, 235), and much worse than most years, that Mr. Goldstein's gross sales were ordinarily much higher than the $60,000 posted by Mr. Dougherty in his first year. Add to this the fact that Mr. Dougherty's figure reflects a 6% price increase effective May 1, 1973, and his total becomes the less impressive.

Ultimately, perhaps most of all because we do not know how hard these two men worked, it is impossible to give any clear meaning to these numbers and therefore impossible to calculate the damage, even for the period of a single year, that Mr. Goldstein's defection did to USAchem's sales in this territory. That it involved a breach is a given; the Court below so held. That Mr. Goldstein appropriated much of USAchem's former business in doing so was documented at trial and not contradicted by Mr. Goldstein. That Mr. Goldstein will continue to do exactly what he has been doing until and unless he is enjoined is something we have knowledge of from Mr. Goldstein's own mouth. (p. 160) The only question is whether in a case involving certain and irreparable but incalculable damage, an injunction

for 18 months which will give USAchem fair access again to this market, is not precisely the remedy which should have been ordered below.

It is to these questions of law that we now turn.

ARGUMENT

POINT I

Defendant's covenant is enforceable under both Texas and New York law since it is reasonable in time and space and necessary to protect the legitimate business interests of plaintiff.

Defendant's Sales Representative's Agreement provides that its terms shall be interpreted in accordance with the laws of Texas. This is a valid and enforceable choice-of-law provision. Because it is "a fundamental principle that 'a contract is governed by the law with a view to which it was made,'" it is respectfully submitted that the Court below erred in refusing to apply Texas law. *Bache & Co., Inc. v. Int'l. Controls Corp.*, 339 F. Supp. 341, 347 (S.D.N.Y. 1972), aff'd. 469 F. 2d 696 (2d Cir. 1972); *Pritchard v. Norton*, 106 U.S. 124 (1882); *Nat'l Chemsearch Corp. of Mo. v. Schultz*, 173 U.S.P.Q. 218, 219 (N.D. Ind. 1972).

Restrictive covenants in employment contracts are enforceable under Texas law to the extent the restraint they impose is reasonably necessary to protect the business or goodwill of an employer. *Weatherford Oil Tool Co. v. Campbell*, 340 S.W. 2d 950 (1960); *Bramlett Co. v. Hunt*, 371 S.W. 2d 787 (Tex. Civ. App. Dallas 1963). Covenants of this type are generally upheld in businesses where, as in the present case, the employee has personal contact with his employer's patrons and customers or where the employee can learn the nature and character of the business and thereby gain an unfair advantage over his em-

ployer. *Trauweek v. Shields*, 380 S.W. 2d 131 (Tex. Civ. App. 1964).

Even where such a covenant is deemed unreasonable as to time or area, the Texas courts, instead of invalidating the entire covenant, limit its enforcement to a reasonable time and area. See e.g., *Krueger, Hutcheson & Overton Clinic v. Lewis*, 269 S.W. 2d 798 (1954); *Weatherford Oil Tool Co. v. Campbell, supra; Orkin Exterminating Co. v. Veal*, 355 S.W. 2d 831 (Tex. Civ. App. 1962); *Sprinks v. Riebold*, 310 S.W. 2d 668 (Tex. Civ. App. 1958).

Typical language in the Texas cases is found in the appellate court's opinion in *Orkin Exterminating Co. v. Veal*, 355 S.W. 2d 831 (Tex. Civ. App. 1962);

> We believe to be enforceable by injunction any promise made by an employee, as a condition upon which his employer consents to employ him or maintain him in employment status, that he will not for himself, or for others engage in a similar or competing business for a reasonable time after the termination of the employment and within a reasonable area.

See also *Whites v. Star Engraving Co.*, 480 S.W. 2d 758 (1972), where the Court of Civil Appeals upheld the issuance of a preliminary injunction with respect to a restrictive covenant contained in an employment agreement.

The following is a table of Texas cases enforcing post-employment covenants not to compete in various businesses and professions:

Business or Profession	Time	Space	Case
Paper Salesman	2 yrs.	City of Houston	*Wilson v. Century Papers, Inc.*, 397 S.W. 2d 314 (Tex. Civ. App. 1965)
Hair Stylist-Cosmetician	1 yr.	Within 10 miles of any beauty salon of employer	*Carl's Coiffure, Inc. v. Mouriot*, 410 S.W. 2d 209 (Tex. Civ. App. 1966)
Oil-field Equipment salesman	3 yrs.	Within 100 miles of Victoria	*Chenault v. Otis Eng. Corp.* 423 S.W. 2d 377 (Tex. Civ. App. 1967)
Cast stone or case brick salesman	1 yr.	Within 700 miles of San Antonio	*Holiday Hill Stone Prod., Inc. v. Peck*, 387 S.W. 2d 73 (Tex. Civ. App. 1962)
Insurance Salesman	2 yrs.	Harris County	*Mosiman v. Employers Casualty Co.*, 354 S.W. 2d 171 (Tex. Civ. App. 1962)
Doctor of Medicine	Perpetual	Houston County	*Latham v. Butler*, 17 S.W. 2d 1083 (Tex. Civ. App. 1929)

In addition, the Texas courts have consistently held that the equitable remedy of injunction lies to prevent wrongful appropriation of trade secrets, including customer lists. *Loccous v. Kinley Co.*, 376 S.W. 2d 336 (1964); *K & G Tool Serv. Co. v. G & G Fishing Tool Serv.*, 314 S.W. 2d 782 (1958); *Hyde Corp. v. Huffiness*, 314 S.W. 2d 763 (1958).

More recently, the Court of Civil Appeals, Dallas, reversed the trial court and granted an injunction in *Arrow Chemical Corporation v. Pugh*, 490 S.W. 2d 628 (Tex. Civ. App. 1973); the case was very like the one at bar. The action was brought by the employer chemical company against its former salesman of janitorial chemical supplies, whose employment contract contained an 18-month post-employment covenant like the one involved here. The Civil Court of Appeals summarized the facts as follows in setting the stage for its reversal.

> It is undisputed that Pugh [the salesman] performed his agreement with the appellant company from March 9, 1970 until September 3, 1971 in both Dallas and Tarrant Counties. Pugh voluntarily terminated his employment with appellant corporation. The evidence is conclusive that during the time Pugh worked for appellant the business of selling janitorial supplies in the territory was highly competitive. There were a number of other companies in this area engaged in selling the same type of products. There were many salesmen operating in the territory serving their various principals in this highly competitive market. Prior to going to work for appellant company Pugh received substantial on-the-job training in order for him to better serve his customers, his company and himself. The evidence reveals that if a salesman such as appellee does his job properly, he can, over a period of time, build up a relationship of cordiality and confidence with the customer, which is extremely valuable to both the salesman and his company. Id. at 630-631.

The only major difference between the *Arrow* case and this one is that the salesman there had only a year-and-a-half to build up

his "relationship of cordiality and confidence with the customer." Goldstein had nine years in the same territory in which to do so.

Like Mr. Goldstein, Mr. Pugh was frank about his intention to act in contravention of the covenant, which he said he considered null and void, and that he was going to make a living any way he could. He said: "If it meant selling chemicals, I had every intention of doing that." Id. at 631. Compare p. 160 of the trial transcript in this case. The Court went on to add the following comments regarding Mr. Pugh's post-employment activities:

> It is also undisputed that Pugh, as an employee of Xeron [the competitor], calls on the same type of customers, selling the same products as he did when he was an employee of Arrow. He says that he calls on twenty to thirty people a day, five days a week. The record contains names of all of the customers that Pugh called on while an employee of appellant and [the general manager and executive secretary of the appellant] specified that a number of the accounts to whom Pugh made sales on behalf of Arrow ceased to be customers of Arrow when Pugh left Arrow's employ. Id. at 631.

The record also showed — and the appellate court thought it significant — that Pugh had been involved in the organization of the competitor company while he was still with Arrow. Id. at 631.

The Court said that under these circumstances an injunction should properly have issued out of the trial court:

> It is quite evident from the testimony adduced that the agreement was essential to the protection of appellant's business. The business was highly competitive. Appellee was given special training by appellant to qualify him to sell appellant's products in this area. The knowledge and training of the salesman is uniquely valuable to his employer in such a highly competitive market. Id. at 632.

Finding that the restrictive covenant was reasonable as to time (18 months) and geographic extent (Dallas and Tarrant Counties, Texas), it instructed the trial court to issue an order enjoining the appellee from doing any act in violation of the agreement not to compete, effective for 18 months from the date of the entry of the order. That relief is exactly what USAchem seeks in this case, in which the only important factual distinction is the nine-year period (rather than one-and-a-half year) in which Mr. Goldstein built up goodwill with his customers. See also *Toch v. Eric Shuster Corporation*, 490 S.W. 2d 618 (Tex. Civ. App. 1973); *Orkin Exterminating Company, Inc. v. Wilson*, 501 S.W. 2d 408 (Tex. Civ. App. 1973); *Kidde Sales & Service, Inc. v. Peairson*, 493 S.W. 2d 326 (Tex. Civ. App. 1973); *Justin Belt Company, Inc. v. Yost*, 502 S.W. 2d 681 (1974).

Under New York law, if it were applicable, the result in this case would properly be an 18-month injunction from entry of the order. It is well recognized by the New York Courts that "a negative covenant against competition by an employee following the termination of his employment is generally enforceable, provided it is reasonably necessary for the protection of the employer and is reasonably limited as to time and place. (I. Edward Brown, Inc. v. Astor Supply Co., 4 A.D. 2d 177, 178-179, 164 N.Y.S. 2d 107-108.)" *Cater Cart Corp. v. Cohen*, 35 Misc. 2d 702, 231 N.Y.S. 2d 192 (Sup. Ct. Queens County, 1962). The defendant therein had signed an agreement which contained a post-employment covenant whereby for a period of 18 months following his termination, the defendant agreed to refrain from soliciting or accepting business at the locations of "stops" constituting his route. The court in granting an injunction recognized that "The sole intent and purpose of the negative covenant in the agreement of March 20, 1962, is to protect the legitimate interests of the plaintiff to the extent of preventing the defendant from appropriating to himself that which he, by contract, acknowledged to be that of plaintiff." Id. at 194-195.

Under New York case law, contracts designed to restrain for a limited time former employees from soliciting active customers of their former employer are enforceable. (*Interstate Tea Co. v. Alt*, 271 N.Y. 76 (1936); *Peerskill Coal & Fuel Oil Co., Inc. v. Martin*, 279 App. Div. 669, 108 N.Y.S. 2d 30 (2d Dept. 1951); *I. Edward Brown, Inc. v. Astor Supply Co.*, 4 A.D. 2d 177, 164 N.Y.S. 2d 107 (1st Dept. 1957).

Also under New York law, the value of customer information has particularly been singled out as justification for the enforcement of restrictive covenants of this kind:

> By reason of and during such employment, the defendant necessarily must have had frequent and repeated contracts with plaintiff's member customers from 1951 to August 1953. During this period defendant must have acquired a great amount of special and valuable information concerning plaintiff's patron members, including their names and addresses, their whims, preferences and habits, the methods of contacting them and methods of seeing them, which information defendant has been utilizing to the disadvantage of plaintiff and in repudiation of his contract. Now he is using this information and his acquaintanceship with plaintiff's customers, which he gained while holding a position of trust and confidence with plaintiff as its employee, to induce the members of Ontario Co-Op to give their business directly to defendant and indirectly thereby promoting the business and interests of Curtiss Farms, a competitor of plaintiff . . ." [*Ontario County Certified Breeders Coop. v. Shappee*, 205 Misc. 175, 127 N.Y.S. 2d 888, 894, (Sup. Ct., Ontario County, 1954).]

Post-employment covenants have always been enforced to the extent necessary to prevent the employee's use of disclosure of his former employer's trade secrets, processes or formulae, *Lepel High Frequency Laboratories, Inc. v. Capita*, 253 App. Div. 799 (1st Dept. 1938), *aff'd.* 278 N.Y. 661 (1938), or his solicitation of, or disclosure of any confidential information concerning his former employer's customers, *Carpenter &*

Hughes v. De Joseph, 13 A.D. 2d 611 (4th Dept. 1961), *aff'd.* 10 N.Y. 2d 925 (1961). Indeed, these latter restrictions have been held to apply to an employee even without a written agreement not to compete with his employer upon the termination of his employment. *Witkop & Holmes Co. v. Boyce*, 61 Misc. 126 (Erie Co. 1908), *aff'd.* 131 App. Div. 922 (4th Dept. 1909); *Harry R. Defler Corp. v. Kleeman*, 19 A.D. 2d 396 (4th Dept. 1963).

Most recently, following this long line of New York cases, the United States District Court for the Western District of New York in *H. B. Fuller Company v. Hagen*, 363 F. Supp. 1325 (W.D.N.Y. 1973), has upheld the validity of and enforced by injunction the two-year post-employment covenant in the employment contract of an adhesive products salesman. Applying New York law, the Court held that an injunction may issue to enforce such a covenant where the employee has become the possessor of valuable trade secrets concerning his employer's business and that any unfair competition may move equity to enforce a negative covenant. Citing *Clark Paper & Mfg. Co. v. Stenacher*, 236 N.Y. 312 (1923).

The reasonableness of geographic and time restrictions may vary widely from case to case and numerous decisions have considered the question. Significantly, however, there have been several cases in other jurisdictions in which the reasonableness of covenants similar, or even identical, to the one now in question has been upheld.

In *Nat'l. Chemsearch Corp. of N.Y., Inc. v. Bogatin*, 233 F. Supp. 802 (E.D. Pa. 1964), vacated on other grounds, 349 F. 2d 363 (3rd Cir. 1965), a preliminary injunction was granted enforcing the restrictive covenant in Bogatin's employment contract almost identical to the covenant in Goldstein's contract here, as against both Bogatin and his new employer, a competitor of Chemsearch. The Court states:

> The general rule in both Pennsylvania and Texas is that an employee's covenant not to engage in competing business against his employer after the termination of his employment contract, may be enforced if the restriction is reasonable in respect to the time it imposes, the territory it embraces and is reasonably necessary to protect some legitimate interest of the employer in the operation of his business'. [Citations omitted.] Under the cases cited above, there is no question that the one-year time limitation, the product limitation and the eight county geographic limitation (Bogatin's previously assigned territory) were reasonably necessary to protect the business interests and goodwill of Chemsearch and do not impose an undue hardship on Bogatin. The harm to Chemsearch from the violation of the agreement — sales already lost, future sales which may be lost, customers which may be lost, unauthorized use of its customer information — is precisely the type of harm which requires the protection of a restrictive covenant, and the decisions so recognized.

233 F. Supp. at 808.

A similar result was reached in *Certified Laboratories of Texas, Inc.* v. Rubinson*, 303 F. Supp. 1014 (E.D. Pa. 1969); *National Chemsearch Corp. of New York, Inc. v. Hanker*, 309 F. Supp. 1278 (D.C.D.C. 1970); *National Chemsearch Corp. of Missouri v. Schultz*, 173 U.S.P.Q. 218 (N.D. Ind. 1972).

The facts in the present case establish the legitimacy of plaintiff's interests to be protected and the reasonableness of the covenant sought to be enforced. Since chemical specialties and related products are virtually identical, the success or failure of the companies engaged in this business depends almost entirely upon the goodwill created by their salesmen. See Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625, 660 (1960).

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*A Company affiliated with USAchem here and using an almost identical employment contract.

Plaintiff has estimated that it takes, on the average, eighteen months to hire, train and develop a salesman to the point where he has established the requisite contacts and has become sufficiently familiar with the customers in his territory to be effective and fully productive. The reasons why some such period is necessary are readily apparent. The salesman can call on each customer only about once a month, if that often, and some customers only buy during a particular season and are not available during the rest of the year. In addition, it takes a number of visits before the salesman can hope to distinguish himself from the many salesmen who call on customers.

Plaintiff's business is completely dependent upon its salesmen, who have the sole contact with plaintiff's customers. Plaintiff spends substantial sums of money and time training its salesmen and invests considerable knowledge and data including customers lists to support them. If one salesman's disloyalty is multiplied by all of its salesmen or a substantial number of its salesmen, plaintiff will be out of business.

Plaintiff does not seek to preclude former employees from earning a livelihood. It seeks only to enforce a covenant containing reasonable restrictions designed to protect its remaining salesmen and its legitimate business interests. The covenant, therefore, does not prevent an ex-salesman from soliciting plaintiff's customers for non-competitive products or from soliciting anyone for any product outside of the assigned territory for any products or finally from any legal business activity, competitive with plaintiff or not, after 18 months.

In this connection, the reasonableness of the restrictive covenant as it applies to Mr. Goldstein was established rather clearly at trial. During cross-examination of him, it came out that he lives in a suburb of Rochester which itself is outside the geographic scope of the covenant; adjacent to the Town of Greece (where Kodak's industrial center is located) which is outside the scope of the covenant; adjacent to the Town of

Webster (where Xerox's industrial complex is located) which is outside the scope of the covenant; and adjacent to the Town of Penfield (pp. 372, 374, 380-384). Just for starters, therefore, there were fertile fields for ploughing in Mr. Goldstein's own neighborhood. It is not as if he could not, as a practical matter, work areas even closer to his home base than most of the territory covered by the covenant. If he did not want to do so because he wanted to exploit that "relationship of cordiality and confidence" which he had with his familiar customers rather than go to the effort to break new ground, then his temptation was exactly what was foreseen in the contract which he had signed.

POINT II

The issuance of an injunction is proper and is required to prevent irreparable injury and harm; particularly so when, as in this case, monetary damage is incalculable.

The facts clearly demonstrate that plaintiff will suffer irreparable harm unless injunctive relief is granted restraining defendant from appropriating for his own benefit valuable customer information. Defendant's admitted actions in violation of his Sales Representative's Agreement, if permitted to continue, will cause a further loss of plaintiff's customers and sales, will permanently destroy goodwill and customer relationships built up over years, will greatly depreciate the value of its confidential customer lists and will continue the defendant's unfair competitive advantage.

As the court said in *Nat'l. Chemsearch of N.Y., Inc. v. Bogatin, supra*, at 811:

> The present and prospective harm to plaintiff resulting from defendants continuing course of conduct — i.e. sales already lost, future sales which may be lost, customers which may be lost, unauthorized use of its customer information — is not easily measured in

> monetary terms and falls within the classic definition of irreparable injury stated in *Stuart v. Gimbel Bros., Inc.*, 285 Pa. 102, 108-109, 131 A. 728, 730 (1926): '*** an injunction may issue to prevent wrongs of a repeated and continuing character, or which occasion damages which are estimable only by conjecture and not by an accurate standard***.
>
> The cases are legion where injunctions are granted to enforce restrictive employment agreements . . .

The defendant can suffer no harm from being enjoined from commiting an act which he may not by contract commit in the first place, particularly when he is permitted to sell any product outside his former territory and anything but competitive products to plaintiff's customers within his former territory.

In construing an identical contract, the Court in *National Chemsearch Corporation of Mo. v. Schultz*, 173 U.S.P.Q. 218 (N.D. Ind. 1972) granted a temporary injunction against a faithless former employee and upheld its responsibility by comparing the contract with certain well-recognized legal principles of long-standing. The Court said:

> In applying the above-enumerated tests to this contract, the 18-month limitation seems to be a legitimate period of time for which any "special influence" of this defendant over plaintiff's customers would wane, and this Court cannot say that such limitation is unreasonable in light of the employer's interests. [Citations omitted.] The limitation as to territory, being the area where the employee was active for the employer is certainly reasonable considering this is the precise area over which any "special influence" the employee may have gained would be most destructive to the plaintiff's business.

Id. at 220.

The Court elaborated on the "special influence" factor in this way:

> Defendant's contacts with plaintiff's customers in the instant case present as compelling a situation for an injunction as the facts in Haig [in which the Court found that the defendant salesman had "ingratiated himself with" his former employer's customers] . . . In the case at bar, the evidence makes clear that in this highly competitive industry [chemical specialties], sales are made predominantly from reliance on personal contacts, and this court deems this to be a sufficient "special influence" so as to come within one of the exceptions of . . . [*Grace v. Orkin Exterminating Co.*, 255 S.W. 2d 279 (Tex. Civ. App. 1953), namely, in the words of the Texas Appellate Court, "where the goodwill of the employer's customers had attached to the employee and the employee had thus acquired a special influence with that customer which gave him an advantage over the employer . . ."]

Id. at 220.

The case at bar is one, like *Schultz*, *Haig* and *Grace*, and the other cases cited in this section of the brief, in which injunctive relief is absolutely required to prevent Mr. Goldstein's appropriation of the plaintiff's market position through his "special influence" over its customers.

The very fact that no damages were awarded bolsters USAchem's case for an injunction. This is so because that verdict really signified the incalculability of the damages, not the absence of them. There was no question about there having been a breach and no question either that an appropriation of considerable business resulted from the breach: those two things, all by themselves, translate into liability and damage in the nature of lost profits. *Cramer v. Grand Rapids Show Case Co.*, 223 N.Y. 63 (1918); *Manuszewski v. Keele*, 257 App. Div. 1036, 13 N.Y.S. 2d 852 (4th Dept. 1939); *Present v. Glazer*, 225 App. Div. 23, 232 N.Y. Supp. 63 (4th Dept. 1928); *Hedeman v. Fairbanks, Morse & Co.*, 286 N.Y. 240 (1941). The following theory of damages, set forth by the Court in

National Chemsearch Corporation of New York v. Hanker, 309 F. Supp. 1278 (D.C.D.C. 1970), was offered by USAchem to the District Court in this case:

> Plaintiff has established that the sales paraphernalia furnished defendant were not returned, thus entitling plaintiff to $500.00 liquidated damages.
>
> Plaintiff has established that defendant made sales on behalf of Management [Gold Seal Associates] while still employed by plaintiff and that after termination of his employment he continued to make sales to customers who had been customers of plaintiff (the term "customers" is herein defined as those to whom sales had been made) and additional customers within the District of Columbia and the aforementioned counties of Virginia. Plaintiff is entitled to an accounting with respect to all such sales and the case is hereby referred to the Auditor for such purposes. During the period while defendant was still employed by plaintiff, the measure of damages is gross income to Management less payments made to plaintiff on those orders. During the period following termination of employment the measure of damages is the gross income derived by defendant less the expenses incurred in conducting that part of the prohibited business.
>
> The burden of proving the payments to plaintiff and the burden of proving the expenses are on the defendant. The judgment for damages will run against James W. Hanker individually, and trading as Management Chemical Corporation.

No proof of sales expense was offered by Mr. Goldstein and virtually no guidance was given to the jury as to how to calculate loss of profits suffered by USAchem. The jury was further confused by the admission into evidence, over the objection of counsel for USAchem, of a chart (Defendant's Exhibit 5, item 43 of the Record; see pp. 101-110 of the trial transcript). This graph purported to show a comparison of the gross sales of Mr. Goldstein and Mr. Dougherty during the period from Sep-

tember, 1972 through October, 1973, in Mr. Dougherty's case and through November, 1973 in Mr. Goldstein's. The chart was probative of nothing, however, and was for that reason irrelevant. It showed "total sales", of both competitive and noncompetitive products. (p. 107) It showed no information about the number of customers each man saw or the number of calls he made or the number of miles he drove or the number of hours he worked. It made no reference to profit margin. (p. 110) It does not prove that Mr. Dougherty was "doing better" during this period than Mr. Goldstein as it was represented as proving; and yet by receiving the chart in evidence the Court gave the document its imprimatur as a relevant and probative piece of evidence. The admission of the chart, more than anything else perhaps, prejudiced USAchem's case with the jury; for they apparently concluded that Mr. Dougherty was doing all right even with Mr. Goldstein in the picture and that USAchem therefore had no complaint. In doing so, they overlooked the fact that USAchem, as a direct result of Mr. Goldstein's violation of the restrictive covenant, had lost a good deal of its established business. So, they apparently declined to award damages in the nature of lost profits (1) because Mr. Dougherty had worked hard and done a good job under the circumstances, (2) the precise loss even over the past year was difficult to calculate and (3) future losses were even more difficult to calculate.

Particularly the future losses are difficult, even impossible to calculate; and it is therefore impossible, ultimately, to compensate USAchem for the damages inflicted by Mr. Goldstein's continuing breach of his contract. Without an injunction the loss is irreparable.

This is why it is surprising that the Court below based its decision not to grant an injunction on the finding by the jury that USAchem had not sustained any loss of profits. That there *was* lost business, business which Mr. Goldstein could get only

by violating the covenant, was never really contradicted. Mr. Piassick testified, moreover, that the average margin of profit of USAchem sales was 20.3% (p. 53), and that in Mr. Goldstein's case it was 25.7% in 1971. (p. 52) The jury was simply unable to put a tag on the loss, presumably because of the complicating factor that USAchem did subsequent to Mr. Goldstein's departure put a new man in the field who made the best of a bad situation. The presence of Mr. Dougherty did not prevent the loss of customers to Mr. Goldstein, however. Under these circumstances, it is respectfully submitted that the Court should not have tied its decision about an injunction to the jury's decision about damages. A fair reading of the record shows that the jury verdict was the result of the jury's inability to calculate the loss; the evidence will not support the conclusion that there was no harm that resulted from Mr. Goldstein's breach.

Yet the District Court expressly based its injunction decision upon the verdict:

> The jury found that the plaintiff had not sustained damages by loss of profits due to sales made by Goldstein within his contract territory. Based upon that finding by the jury, I find that there is no reasonable probability that the plaintiff will sustain damages during a period of eighteen months following the entry of this judgment.

This procedure was intentionally adopted and indeed the use of it was foreshadowed by the District Court Judge at p. 421 of the trial transcript. We urge that this procedure should not have been followed, that the Court could not reasonably have concluded on the evidence that there was no probability of damage and that it ought to have, because of the great difficulty in putting a value on USAchem's loss, kept its determination of the injunction issue aloof from the jury's verdict on damages. It should have granted the injunction called for by the contract.

CONCLUSION

For the reasons set forth herein USAchem submits that it was entitled below to a judgment against the defendant, enjoining him for a period of eighteen months from competing with it by selling or soliciting sales of chemical specialty products within his former assigned territory, and USAchem therefore seeks a reversal of the denial of the judgment below and an order that such an injunction be issued, and for such other and further relief as to the Court may seem just and proper. USAchem also asks to reserve its right to submit a reply brief prior to the oral argument of this appeal.

Respectfully submitted,

HARRIS, BEACH AND WILCOX
Attorneys for Plaintiff-Appellant
Two State Street
Rochester, New York 14614
Telephone: (716) 232-4440

Of Counsel to:
TOBOLOWSKY, SCHLINGER & BLALOCK
1900 Southland Center
Dallas, Texas 75201

Counsel
Henry W. Williams, Jr.
Edwin Tobolowsky
Neal E. Young
Douglas S. Gates

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AFFIDAVIT OF SERVICE

May 3, 1974

RE: USAchem, Inc. vs Howard A. Goldstein and Howard A. Goldstein d/b/a Gold Seal Associates

STATE OF NEW YORK)
COUNTY OF MONROE) ss.:
CITY OF ROCHESTER)

John S. May , being duly sworn, deposes and says:

That he is associated with The Daily Record Corp. of Rochester, New York, and is over twenty-one years of age.

That at the request of Harris, Beach & Wilcox
Attorney(s) for Plaintiff-Appellant

(s)he personally served three (3) copies of the printed ~~[Record]~~ ~~[Brief]~~ ~~[Appendix]~~ of the above-entitled case addressed to: Appellant's Memorandum of Law of the above-entitled case addressed to:

Shapiro & Rosenbaum
707 Wilder Bldg.
Rochester, N.Y.
Attn: Sanford R. Shapiro, Esq.

by messenger delivery.

~~by depositing true copies of the same securely wrapped in a postpaid wrapper in a Post Office maintained by the United States Government in the City of Rochester, New York.~~

John S. May

Sworn to before me this 3rd
day of May , 1974.

Ellen A. Defendis
Notary Public
~~Commissioner of Deeds~~

ELLEN A. DEFENDIS, Notary Public
State of New York, County of Monroe
Commission Expires March 30, 1975